

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



**FINANCIAL EXAMINATION
OF**

**Unigard Indemnity Company
Bellevue, Washington**

**NAIC CODE 25798
DECEMBER 31, 2002**

Exhibit A

**Participating States:
Washington
Oregon**

CHIEF EXAMINER AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Unigard Indemnity Company of Bellevue, Washington. This report shows the financial condition and related corporate matters as of December 31, 2002.

A handwritten signature in black ink, appearing to read "Patrick H. McNaughton", is written over a horizontal line.

Patrick H. McNaughton
Chief Examiner

10-19-04

Date

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Seattle, Washington
October 19, 2004

The Honorable Kevin McCarty,
Chair, Financial Condition (E) Committee, NAIC
Director of Insurance Regulation
Florida Department of Financial Services
The Larson Building
200 E. Gaines Street, Room 101
Tallahassee, FL 32399-0301

The Honorable Joel Ario
Insurance Administrator, Oregon Insurance Division
350 Winter Street NE, Room 440
Salem, OR 97310-3883

The Honorable John Morrison
Commissioner, Montana Department of Insurance
NAIC Secretary, Western Zone
840 Helena Avenue
Helena, MT 59601

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance 5000 Building
5000 Capital Blvd.
Tumwater, WA 98504-0255

Dear Commissioners:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an Association examination was made of the corporate affairs and financial records of

UNIGARD INDEMNITY COMPANY
of
Bellevue, Washington

hereinafter referred to as "UID" or the "Company," at the location of its home office, 15805 NE 24th Street, Bellevue, Washington. This report is respectfully submitted showing the condition of the Company as of December 31, 2002.

SCOPE OF THE EXAMINATION

This examination covers the period January 1, 1997 through December 31, 2001, carried forward through December 31, 2002, and comprises a comprehensive review of the accounts and records of the Company. The examination followed the statutory requirements contained in the Washington Administrative Code (WAC), Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

Corporate records along with external reference materials from the NAIC and the Internal Revenue Service (IRS) along with various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Company's certified public accountant's and internal audit work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

INSTRUCTIONS

The examiners reviewed the Company's filed 2002 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the Annual Statement in accordance with the NAIC Annual Statement Instructions, and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC and the NAIC's Accounting Practices and Procedures Manual.

Based on our materiality threshold, no adjustments were required. Reclassification and adjusting entries are shown for informational purposes only. The following summarizes the exceptions noted while performing this examination.

1. Stock Register

The Company does not maintain a stock register or stock transfer book that tracks changes in ownership of the Company. A stock certificate indicated that Unigard Insurance Company (UIC) owns all authorized and issued shares of UID. The examination staff asked to view the stock register to insure that this certificate was the only one outstanding. The Company was unable to produce a stock register or other official company record showing the history of the Company's ownership. It is a customary business practice for a corporation to maintain a stock register so that it can keep track of stock certificates, capital stock issued, dates of changes, changes in treasury stock, and to record future changes in ownership. RCW 48.05.280 states: "Every insurer

shall keep full and adequate accounts and records of its assets, obligations, transactions and affairs."

The Company is instructed to maintain a stock register in order to meet the full and adequate accounts and records pursuant to RCW 48.05.280.

2. Investment Management Fee

The Company receives investment management services from Winterthur Investment Management Corporation (WIMCO) an affiliate. The Investment Management Agreement which was approved by OIC requires management fees to be based on actual costs incurred by WIMCO. The Company was not able to provide records to support the costs incurred by WIMCO in providing investment management services to the Company. The Company did provide a summary record on the billing allocation method used by WIMCO which is based on actual costs but without the records and details to support those costs we were not able to determine the reasonableness of the billings charged to the Company.

This is in violation of the Insurer Holding Company Act (RCW 48.31B.030), which states "...the books, accounts, and records of each party...must be so maintained as to clearly and accurately disclose the nature and details of the transactions, including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties."

The Company is instructed to comply with RCW 48.31B.030 by maintaining its books, accounts, and records so that they clearly and accurately disclose the nature and details of the transactions, including such accounting information as is necessary to support the reasonableness of the charges.

3. Prior Approval Required for Cost-Sharing Agreement

The Company's Cost-Sharing Agreement involved the following affiliates within the Unigard Insurance Company Group: National Merit Insurance Company (NMIC), Unigard Pacific Insurance Company, Unigard Insurance Company (UIC) and Unigard Indemnity Company (UID). The agreement was implemented on January 1, 1998, which was prior to the Commissioner's approval date of April 6, 1999, and prior to its filing of Form D on January 7, 1999. RCW 31B.030(1)(b) states that a service agreement "...involving a domestic insurer and a person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into the transaction and the commissioner declares the notice to be sufficient at least sixty days before, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period." The Company implemented its Cost-Sharing Agreement with its affiliates prior to receiving approval from the OIC.

The Company is instructed to comply with RCW 48.31B.030(1)(b) which requires prior approval of agreements involving persons in its holding company system.

COMMENTS AND RECOMMENDATIONS

1. Inter-Company Tax Agreement

The Inter-Company Tax Agreement with the parent company, Unigard Inc., requires UID to prepare its tax return on a stand-alone basis. UID is required to file reports and make payments to the parent company on a timely basis in accordance with the Inter-Company Tax Agreement. UID was late in paying its accrued tax liability of \$684,030 for 2002 and its first quarter estimated tax of \$223,000 for 2003.

It is recommend that the Company settle its tax liabilities and any estimated tax payments with its parent company in a timely fashion in order to comply with the Inter-Company Tax Agreement.

COMPANY PROFILE

History

Unigard Indemnity Company (UID) was incorporated as the Unigard Carolina Insurance Company on November 8, 1972 under the laws of North Carolina. The Company changed its name to Unigard Indemnity Company on April 5, 1977. On August 9, 1990, 100% ownership of the Company was transferred from Unigard, Inc., to Unigard Insurance Company. On June 30, 1994, the Company re-domesticated from Raleigh, North Carolina to Bellevue, Washington, where the administrative offices are located.

Territory and Plan of Operation

UID operates primarily in the six (6) western states of Arizona, California, Idaho, Oregon, Utah, and Washington. The Company underwrites both personal and commercial lines, mainly under the multi-peril and auto lines of business, but is authorized to write private passenger auto liability, auto physical damage, homeowners, commercial auto liability, commercial multi-peril, farm-owners, fire, and other liability insurance policies.

Acquisitions, Mergers, Disposals, Dissolutions, Purchases, And Sales

UID is a wholly-owned subsidiary of Unigard Insurance Company (UIC), which is a subsidiary of Unigard, Inc. On July 1, 1993, Unigard, Inc., and its subsidiaries were purchased by Winterthur U.S. Holdings, Inc., a Delaware Corporation and wholly-owned subsidiary of Winterthur Swiss Insurance Company. Winterthur Swiss Insurance Company and its subsidiaries are members of the Credit Suisse Group.

Growth of Company

The following schedule shows the Company's growth for selected categories as reported in its NAIC Annual Statements:

<u>Year</u>	<u>Net Premiums Written</u>	<u>Net Losses Paid</u>	<u>Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>
1997	\$ 34,115,850	\$ 23,615,149	\$ 71,395,704	\$ 24,520,131
1998	17,430,119	21,333,226	60,791,274	28,090,984
1999	20,417,635	13,683,085	47,715,407	18,399,025
2000	21,996,659	12,930,840	48,565,267	19,279,090
2001	25,182,209	13,714,340	54,371,482	21,702,353
2002	27,483,911	14,662,752	58,452,876	23,275,747

AFFILIATED COMPANIES

The Company's outstanding stock is owned by Unigard Insurance Company (UIC), which is a subsidiary of Unigard, Inc. All of the voting stock of Unigard, Inc., is owned by Winterthur U.S. Holdings, Inc., a Delaware Corporation and a wholly-owned subsidiary of Winterthur Swiss Insurance Company. Winterthur Swiss Insurance Company and its affiliates are members of the Credit Suisse Group. As a member of an insurer holding company system, registration statements are required to be filed in accordance with RCW 48.31B.025 and WAC 284-18-300. Winterthur U.S. Holdings, Inc., filed the registration statements for each year under examination on behalf of the Unigard Insurance Group.

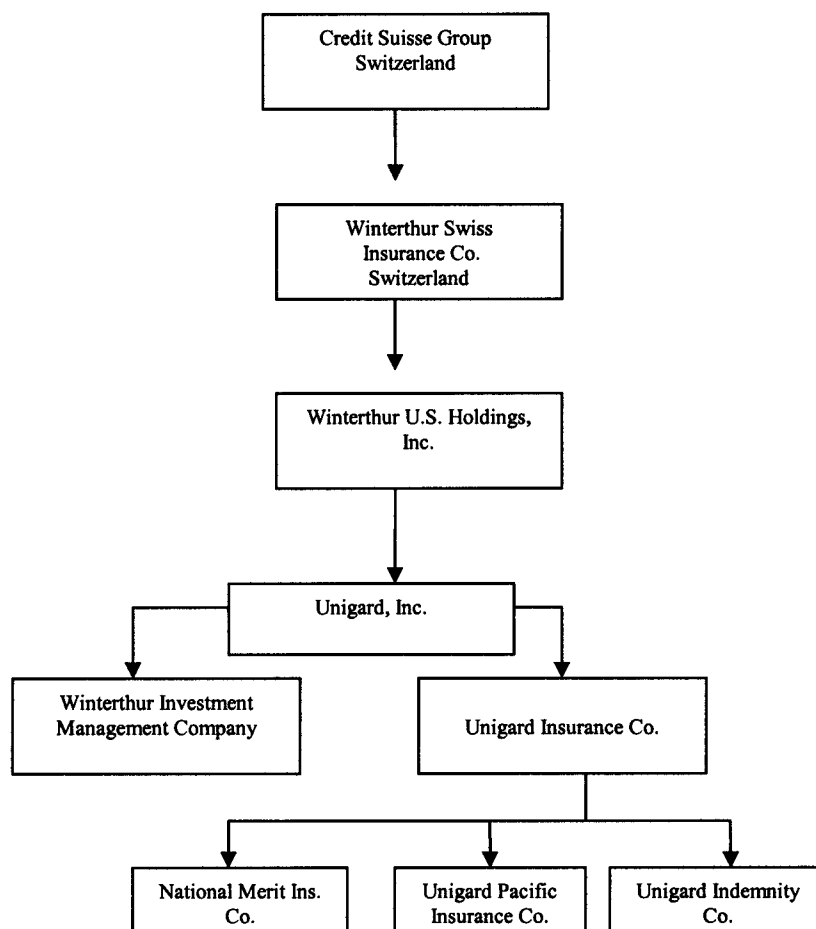
Unigard Insurance Company (UIC) provides all operating services for Unigard Pacific Insurance Company (UPIC), Unigard Indemnity Company (UID), and National Merit Insurance Company (NMIC), with reimbursement pursuant to service agreements between the parties.

Winterthur Investment Management Corporation (WIMCO), an affiliate, provides all the investment services for UID pursuant to an asset management/investment services agreement dated January 1, 1999.

Beginning in 1993, the income tax return of UID has been consolidated with Winterthur U.S. Holdings, Inc., and its subsidiaries. The method of allocation between the companies is subject to a written agreement that became effective on December 10, 1993 and was amended on December 9, 1997. The agreement requires taxes to be allocated based on separate return calculations. These calculations result in a tax charge (or refund) of not more than the amount each company would have paid (or received) had they filed separate returns with the IRS.

On January 1, 1998, UIC entered into an inter-company pooling agreement with two of its wholly-owned subsidiaries, UID and UPIC. Under the terms of this agreement, UIC assumes all of UID's and UPIC's net underwriting activity. UIC then cedes back to UID and UPIC, 10% and 4%, respectively, of the pooled business net of cessions to third party reinsurers.

The following organization chart depicts the direct organizational reporting structure of the Unigard group of companies as of December 31, 2002:



MANAGEMENT AND CONTROL

Ownership

On August 9, 1990, 100% ownership of the Company was transferred from Unigard, Inc., to UIC. The original authorized capital of the Company was \$900,000, which consisted

of 9,000 shares of \$100 par value stock. On March 2, 1977, an additional 21,000 shares of \$100 par value stock were issued, which increased contributed surplus by \$2,100,000. On March 5, 1980, the Board approved the repayment of \$1,700,000 paid in surplus to its parent company, thus reducing the paid in and contributed surplus from \$3,000,000 to \$1,300,000.

On December 13, 1994, UIC contributed \$5,000,000 to the Company. This transfer increased gross paid in surplus to \$6,300,000.

On December 15, 1999, the Company paid a cash dividend of \$11,000,000 to its parent company, UIC. This dividend was considered an extraordinary dividend under Washington and California state laws and was approved by the insurance departments of both states prior to payment.

Currently, the authorized capital of the Company is \$3,000,000 consisting of 30,000 common shares at \$100 par value per share. All authorized shares are outstanding.

Board of Directors

Article I, Section 1 of the Bylaws states that the business affairs of the Company shall be conducted by a Board of not less than seven (7) or more than seventeen (17) directors. The directors are elected at each annual shareholder meeting and hold office for one year.

The following directors, officers and committee members were serving the Company as of December 31, 2002:

<u>Directors</u>	<u>Principal Business Affiliation</u>	<u>Residence</u>
Peter Christen	Chairman, President & CEO Unigard Insurance Group	Washington
John P. McPeak	Vice President & CFO Unigard Insurance Group	Washington
Toni G. Rotz	Vice President, Personal Lines Unigard Insurance Group	Washington
L. Arnold Chatterton	Vice President, Marketing Services Unigard Insurance Group	Washington
Cheryl L. Lang	Vice President, Human Resources Unigard Insurance Group	Washington
Jeffrey R. Dehn	Vice President, Commercial Lines Unigard Insurance Group	Washington

Kenneth C. Dedrick	Vice President, Claims Unigard Insurance Group	Washington
Paul D. Neuss	Vice President, Operations Unigard Insurance Group	Washington

Article I, Section 4 of the Bylaws provides that the Board shall appoint from among its members an Executive Committee composed of not less than three (3) members, including the President and the Chairman of the Board. The Executive Committee shall have full power to act for the Board ad interim. The following individuals were serving on the Executive Committee as of December 31, 2002:

Peter Christen
Cheryl Lang
John McPeak

Officers

Elected Officers

Article I, Section 2 of the Bylaws provides that the following key positions of the Company shall be elected by the Board of Directors: Chairman of the Board, President, Executive Vice President, General Counsel, and such number of Senior Vice Presidents and Vice Presidents as the Board may determine. The elected positions as of December 31, 2002 were as follows:

<u>Name</u>	<u>Title</u>
Peter Christen	Chairman of the Board, President & CEO
John P. McPeak	Vice President & Chief Financial Officer
Andreas F. Braendle	Vice President, Information Systems
L. Arnold Chatterton	Vice President, Marketing Services
Kenneth C. Dedrick	Vice President, Claims
Jeffrey R. Dehn	Vice President, Commercial Lines
Cheryl L. Lang	Vice President, Human Resources
Paul D. Neuss	Vice President, Operations
Toni G. Rotz	Vice President, Personal Lines
Scott A. Kallander	General Counsel

Appointed Officers

Article I, Section 3 of the Bylaws provides that the Chief Executive Officer may from time to time designate a Controller, Treasurer, Secretary and any number of Assistant Vice Presidents and Assistant Secretaries. The appointed officers as of December 31, 2002 were as follows:

<u>Name</u>	<u>Title</u>
Scott Kallander	Secretary
LeAnn Weese	Assistant Vice President, Accounting & Treasurer
Chris Alberghini	Assistant Vice President, Marketing Services
Deirdre Ashlock	Assistant Vice President, Commercial Lines
Sherida Bradley	Assistant Vice President, Northwest Field Operations
Norm Donelson	Assistant Vice President, Actuarial
John Doocy	Assistant Vice President, Information Systems Operations
Doug Furman	Assistant Vice President, Claims
Jerry Lemmon	Assistant Vice President, Information Systems
John Scott	Assistant Vice President, Claims
Eric Spencer	Assistant Vice President, Claims
Diana Van Horn	Assistant Vice President, Intermountain Field Operations
Cindy Woodford	Assistant Vice President, Personal Lines

Conflict of Interest

The Company has policies and procedures to identify any conflicts of interest of the directors, officers and exempt employees. Each officer and director submits a signed conflict of interest statement to the corporate legal department on an annual basis. Each exempt employee submits a signed conflict of interest statement to the corporate legal department every three years. Any reported exceptions that might be considered conflicts of interest are reported to the Board of Directors or its Executive Committee. No material exceptions were noted.

Fidelity Bond and Other Insurance

Winterthur U. S. Holdings, Inc., an affiliate, has a financial institution bond policy that includes coverage for its subsidiaries. The aggregate liability covered by the bond is \$10,000,000, which exceeds the NAIC recommended amount.

The Company's property and general liability coverage is provided through an independent agency, i.e., they are underwritten by insurance companies other than those in the Unigard Group.

Winterthur U.S. Holdings, Inc., also has a program of coverage for its subsidiaries that includes: casualty excess, umbrella, employment practices, professional liability, directors and officer's liability, and fiduciary liability insurance.

Officer's, Employees', and Agents' Welfare and Pension Plans

UID does not have any employees. The employees of UIC provide all operational services for UID as required by the various inter-company contracts and service agreements. The officers of UID are also officers of UIC and are eligible for benefits under UIC's plans.

CORPORATE RECORDS

The Company amended its Bylaws on December 11, 2000 to reflect administrative changes required by the operating parent company, UIC. The amended document was filed with the OIC.

The Company's minutes from the Stockholder, Director, and Committee meetings documented disclosure and approval of the Company's transactions and events. The previous examination report was reviewed by the Company's directors.

LOSS EXPERIENCE

The reserves carried by the Company for unpaid losses and loss adjustment expenses were \$15,661,730 and \$3,610,560, respectively, as of December 31, 2002.

The reserves and an actuarial report prepared by the Company's consulting actuarial firm, Tillinghast-Towers Perrin, were reviewed by the OIC's actuarial staff. Company personnel provided loss and loss adjustment expense development data by accident year and line of business as of December 31, 2002.

Based on the analysis of data through December 31, 2002, the OIC's actuarial staff concluded that the Company's booked reserves for unpaid losses and unpaid loss adjustment expenses as of December 31, 2002 were within a reasonable range. Therefore, the reserves were accepted as shown in the 2002 Annual Statement.

REINSURANCE

The Company cedes and assumes reinsurance. UID is in compliance with the RCW and NAIC guidelines regarding authorized and unauthorized reinsurers. All reinsurance agreements include the insolvency clause required under RCW 48.12.160(2). All reinsurance agreements in effect as of December 31, 2002 were reviewed and the coverage is summarized as follows:

Reinsurance Ceded

The Company, its parent (UIC), and its affiliates UPIC and NMIC, are collectively reinsured under a variety of reinsurance treaties. The following schedule summarizes the Companies' ceded reinsurance treaty coverage in force as of December 31, 2002:

<u>Property</u>	<u>Company Retention</u>	<u>Reinsurers' Limits</u>
First Per Risk Excess	\$500,000	\$1,500,000 excess of retention,
	\$750,000 annual aggregate deductible	\$4,500,000 per occurrence \$3,000,000 for terrorism
Second Per Risk Excess	\$2,000,000	\$3,000,000 excess of retention, \$6,000,000 per occurrence \$3,000,000 for terrorism
Third Per Risk Excess	\$5,000,000	\$5,000,000 excess of retention, \$5,000,000 per occurrence \$5,000,000 for terrorism
Facultative Excess Binding Agreement	\$10,000,000 per risk	\$20,000,000 excess of retention per risk
First Catastrophe Excess	\$5,000,000	95% of \$5,000,000 excess of retention, ultimate net loss per occurrence
Second Catastrophe Excess	\$10,000,000	95% of \$110,000,000 excess of retention, ultimate net loss per occurrence
Equipment Breakdown Coverage	\$0	\$25,000,000 per accident
<u>Yacht</u>	<u>Company Retention</u>	<u>Reinsurers' Limits</u>
Yacht Excess Automatic Facultative	Hull \$250,000	Hull \$1,250,000 excess of retention
<u>Note:</u> This agreement was cancelled 4/1/02 and provides one year of runoff coverage for policies inforce on that date.	P&I \$300,000	P&I \$700,000 excess of retention

<u>Casualty</u>	<u>Company Retention</u>	<u>Reinsurers' Limits</u>
First Excess	\$500,000 per occurrence	\$500,000 excess \$500,000 per occurrence
Second Excess	\$1,000,000 per occurrence	\$4,000,000 excess \$1,000,000 per occurrence
Third Excess	\$5,000,000 per occurrence	\$5,000,000 excess \$5,000,000 per occurrence
Fourth Workers' Compensation (WC) Excess	\$10,000,000 per occurrence	\$10,000,000 excess \$10,000,000 per occurrence
Personal Umbrella Quota Share	\$200,000 (20% First \$1,000,000)	80% First \$1,000,000
Automatic Facultative		100% Next \$4,000,000
Commercial Umbrella Quota Share	\$150,000 (15% First \$1,000,000)	85% First \$1,000,000
Automatic Facultative		100% Next \$14,000,000

Reinsurance Assumed

The Company's assumed reinsurance is derived primarily from the participation in the inter-company pooling arrangement.

UID, as part of the inter-company pooling agreement (effective January 1, 1998), automatically cedes to UIC all gross liabilities incurred under or in connection with all contracts and policies issued by UID. Other affiliates also cede 100% of their business to UIC, creating a "business pool". UIC cedes back 10% of the pooled business to UID.

STATUTORY DEPOSITS

At December 31, 2002, UID had the following statutory deposits:

<u>State</u>	<u>Type</u>	<u>Book Value</u>	<u>Market Value</u>
Arizona	Bonds	\$ 550,000	\$ 659,903
California	Bonds	\$ 1,525,000	\$ 1,828,094
Idaho	Bonds	\$ 300,000	\$ 359,625
Nevada	Bonds	\$ 225,000	\$ 262,265
North Carolina	Bonds	\$ 500,000	\$ 565,819
Ohio	Bonds	\$ 100,000	\$ 111,062
Oregon	Bonds	\$ 500,000	\$ 554,685
Tennessee	Bonds	\$ 3,800,000	\$ 4,456,955
Washington	Bonds	\$ 6,300,000	\$ 7,453,830

ACCOUNTING RECORDS AND PROCEDURES

The Company's accounting functions are performed by UIC at its home office in Bellevue, Washington. Data is processed on UIC's computers using purchased software. Accounting services are also provided by UIC per the inter-company service and management agreement. In addition, the Company receives investment services from WIMCO, according to an investment management agreement.

Data for UPIC, UIC, NMIC, and UID are entered into the same general ledger system. Company codes are used to identify and separate each company's data. This system produces a trial balance that can be downloaded into a Lotus spreadsheet and used for financial reporting. Booke software is used to prepare the NAIC Annual Statement. Investment accounting for marketable securities is processed by Sunguard, a personal computer (PC) based software package. Sunguard produces the NAIC Annual Statement investment schedules. Supporting details are recorded in the subsidiary ledgers, journals, and tabulations which are maintained by the UIC's accounting department.

SUBSEQUENT EVENTS

The following subsequent events were noted:

1. During the fourth quarter of 2003, Winterthur US Holdings, Inc., the parent of Unigard, Inc., announced that it would create a new service company called Winterthur North America (WNA) which will be located in Wisconsin. WNA will provide actuarial, financial, human resource, information technology, legal, and

corporate marketing services to companies within Winterthur US Holdings, including UIC and its affiliates. It was announced that about 40 positions in information technology, human resources, and accounting would be eliminated. Most of the financial and accounting functions will be phased out near the end of 2004 and handled by the new service company, WNA. Transition to the new service arrangement will involve significant system conversions, training, and reporting line changes.

2. During the first quarter of 2003, the Company appointed Andreas F. Braendle, (Vice-President of Information Systems) to the Board of Directors. He replaced Paul D. Neuss, the former Vice-President of Operations.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

There were no instructions, comments, or recommendations made during the last examination.

FINANCIAL STATEMENTS

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UNIGARD INDEMNITY COMPANY
STATEMENT OF ASSETS
DECEMBER 31, 2002

	<u>PER COMPANY</u>	<u>ADJUSTMENTS</u>	<u>EXAMINATION</u>
Assets			
Bonds	\$ 45,274,981		\$ 45,274,981
Cash and short-term investments	<u>11,260,006</u>		<u>11,260,006</u>
Subtotal, cash and invested assets	56,534,987		56,534,987
 Federal income tax recoverable and interest thereon	 1,237,000		 1,237,000
Interest, dividends and real estate income due and accrued	670,549		670,549
Aggregate write-ins for other than invested assets	10,340		10,340
 Total Assets	 <u>\$ 58,452,876</u>	 <u>0</u>	 <u>\$ 58,452,876</u>

UNIGARD INDEMNITY COMPANY
STATEMENT OF LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2002

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Liabilities			
Losses	\$ 15,661,730		\$ 15,661,730
Loss adjustment expenses	3,610,560		3,610,560
Commissions payable, contingent commissions and other similar charges	2,358,700		2,358,700
Taxes, licenses, and fees	88,855		88,855
Federal and foreign income taxes	684,030		684,030
Unearned premiums	12,524,976		12,524,976
Payable to parent, subsidiaries and affiliates	248,279		248,279
Total Liabilities	<u>35,177,130</u>		<u>35,177,130</u>
Surplus and Other Funds			
Common capital stock	3,000,000		3,000,000
Gross paid in and contributed surplus	6,300,000		6,300,000
Unassigned funds (surplus)	13,975,747		13,975,747
Surplus as Regards Policyholders	<u>23,275,747</u>		<u>23,275,747</u>
Total Liabilities, Surplus, and Other Funds	<u>\$ 58,452,877</u>	<u>0</u>	<u>\$ 58,452,877</u>

UNIGARD INDEMNITY COMPANY

STATEMENT OF INCOME

DECEMBER 31, 2002

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION
Underwriting Income			
Premiums earned	<u>\$ 25,901,188</u>		<u>\$ 25,901,188</u>
Deductions:			
Losses incurred	15,453,901		15,453,901
Loss expenses incurred	3,358,335		3,358,335
Other underwriting expenses incurred	<u>8,443,452</u>		<u>8,443,452</u>
Total underwriting deductions	27,255,688		27,255,688
Net underwriting gain or (loss)	<u>(1,354,500)</u>		<u>(1,354,500)</u>
Investment Income			
Net investment income earned	2,717,380		2,717,380
Net realized capital gains or (losses)	<u>1,093,513</u>		<u>1,093,513</u>
Net investment gain or (loss)	<u>3,810,893</u>		<u>3,810,893</u>
Other Income			
Net income before dividends to policyholders and before federal and foreign income taxes	<u>2,456,393</u>		<u>2,456,393</u>
Net income, after dividends to policyholders but before federal and foreign income taxes	2,456,393		2,456,393
Federal and foreign income taxes incurred	(925,000)		(925,000)
Net Income	<u>\$ 1,531,393</u>	<u>0</u>	<u>\$ 1,531,393</u>

UNIGARD INDEMNITY COMPANY
CAPITAL AND SURPLUS ACCOUNT
DECEMBER 31, 2002

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Surplus as Regards Policyholders, December 31 Prior Year	<u>\$ 21,702,353</u>		<u>\$ 21,702,353</u>
Gains and Losses in Surplus			
Net income	1,531,393		1,531,393
Change in net deferred income tax	(42,000)		(42,000)
Change in non-admitted assets	84,000		84,000
 Change in surplus as regards policyholders for the year	 <u>1,573,393</u>		 <u>1,573,393</u>
 Surplus as Regards Policyholders, December 31 Current Year	 <u><u>\$ 23,275,746</u></u>	 <u><u>0</u></u>	 <u><u>\$ 23,275,746</u></u>

UNIGARD INDEMNITY COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT
FOR THE FIVE YEARS ENDING DECEMBER 31

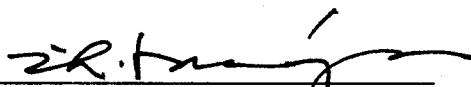
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Capital and Surplus as Regards Policyholders, December 31 Prior Year	\$ 21,702,353	\$ 19,279,090	\$ 18,399,024	\$ 28,090,980	\$ 24,520,131
Gains and (Losses) in Surplus					
Net Income	1,531,393	1,380,250	880,066	1,232,044	3,429,849
Change in net deferred income tax	(42,000)	103,000			
Change in non-admitted assets	84,000	(10,000)			
Change in excess of statutory reserves statement reserves				76,000	141,000
Cumulative effect of changes in accounting principles		1,012,000			
Dividends to stockholders (cash)				(11,000,000)	
Extraordinary amounts of taxes for prior years					
Aggregate write-ins for gains and losses in surplus		(61,987)			
Change in surplus as regards policyholders for the year	1,573,393	2,423,263	880,066	(9,691,956)	3,570,849
Capital and Surplus as Regards Policyholders, December 31 Current Year	\$ 23,275,746	\$ 21,702,353	\$ 19,279,090	\$ 18,399,024	\$ 28,090,980


ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers of Unigard Indemnity Company during the course of this examination.

In addition to the undersigned, Mike Jordan, CPA, CFE, MHP; Carl Baker, CPA, CISA, AFE; Bert Karau, CPA; Jeanette Liao; Kathy Hicks, CPA; Mitch Coe, CPA; Tarik Subbagh, CPA; D. Lee Barclay, FCAS, MAAA; Eric Slavich; and John Jacobson, AFE; all from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,


Timoteo L. Navaja, CFE, CIE
Examiner-in-Charge
State of Washington


Timothy Hurley, CFE
Representing State of Oregon and
NAIC Western Zone

AFFIDAVIT

STATE OF WASHINGTON

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COUNTY OF KING

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Timoteo L. Navaja, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of Unigard Indemnity Company was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).



Timoteo L. Navaja, CFE, CIE
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me this 19th day of October, 2004.



Notary Public in and for the
State of Washington.

